

# **FISCAL MEMORANDUM**

## **HB 2281 – SB 2223**

June 4, 2007

### **SUMMARY OF AMENDMENTS (009602, 009671, 009812):**

Amendment 009602 deletes the language of the original bill and makes numerous changes to Tennessee tax laws including, but not limited to: (1) multiple changes to Tennessee economic development tax incentives (via expanding existing franchise/excise {F/E} tax credits and/or sales and use tax credits, and/or by creating new tax credits), (2) application of F/E tax apportionment provisions to barge companies that currently apply to other common carriers, (3) changes to various F/E tax laws for the purpose of closing of specific loopholes (4) the authorization for exempt diversified investing funds to organize as business trusts, (5) an increase to the tire disposal fee from \$1.00 to \$1.35 and the creation of a 50% penalty for the underreporting of such fees, (6) changes to the unauthorized substances tax law, (7) lowering of the threshold for electronic filing of sales and use tax returns from \$5,000 to \$2,500 per month, (8) revising of the time period with which a taxpayer can file suit to challenge denial of a refund claim, (9) expansion of sales tax exemptions to include motor vehicles purchased by members of the military, (10) closing of a sales tax loophole that allows propane sold in small portable tanks to be purchased sales tax exempt, (11) removal of automobile manufacturers' incentive payments from the sales price of motor vehicles for the purpose of calculating sales tax, (12) revisions to sales tax law allowing equitable taxation for video services regardless of technology utilized, (13) the addition of Stewart and Humphreys counties to the Tennessee River Resort District Act, (14) the authorization for the Comptroller to process property assessor salary supplements as a restricted grant to the county rather than to individual payees, (15) multiple changes to the Streamlined Sales and Use Tax Provisions, and (16) other various technical corrections. Amendment 009671 requires that propane sold over the counter to consumers in cylinders of 100 lbs. or more remain sales tax exempt. Amendment 009812 makes additional technical corrections regarding (1) the removal of automobile manufacturers' incentive payments from the sales price of motor vehicles for the purpose of calculating sales tax, and (2) Streamlined Sales and Use Tax provisions.

### **FISCAL IMPACT OF ORIGINAL BILL:**

Forgo State Revenues - \$31,500,000 - FY07-08  
\$32,900,000 – FY08-09

Forgo Local Govt. Revenues - \$41,500,000 – FY07-08  
\$43,400,000 – FY08-09

### **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

**HB 2281 – SB 2223**

**Forgone State Revenues – Exceeds \$3,250,000**  
**Increase State Revenues – Net Impact - \$4,975,000**

**Increase State Expenditures - \$270,000 Recurring**  
**\$120,000 One-Time**

**Increase Local Govt. Revenues – Net Impact - \$100,000**

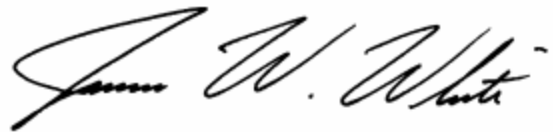
Assumptions applied to amendments:

- Sections of this bill as amended resulting in either a no impact or a not significant impact have been omitted from the assumptions section of this fiscal memorandum.
- According to the Department of Revenue (DOR), the amount of state revenue forgone resulting from the expansion of economic development tax incentives (via changes to F/E tax law) is estimated to exceed \$3,250,000 per year.
- According to DOR, the decrease to state revenues resulting from the expansion of economic development tax incentives (via changes to sales and use tax law) is estimated to exceed \$4,400,000 per year.
- According to DOR the decrease to state revenues resulting from F/E bank credits for investments into the Tennessee Rural Opportunity Fund (considered an economic development incentive) and for the apportionment change attributable to barge companies is estimated to exceed \$200,000 per year.
- According to DOR, the decrease of state revenues resulting from sales tax exemptions for motor vehicles purchased by members of military is estimated to be \$7,800,000 per year.
- The decrease of state revenues resulting from the addition of Stewart and Humphreys counties to the Tennessee River Resort District Act is estimated to be \$425,000 per year (fiscal note for HB0327/SB0532).
- According to DOR, the decrease of state revenues resulting from the removal of automobile manufacturers' incentive payments from the sales price of motor vehicles for sales tax purposes is estimated to be \$1,000,000 per year.
- According to DOR, the increase to state revenues resulting from the closing of identified F/E tax loopholes is estimated to exceed \$16,500,000 per year.
- According to DOR, the increase of state revenue resulting from the increase of tire disposal fees is estimated to be \$1,600,000 per year.
- The increase to state revenues resulting from sales tax collections on sales of propane gas in small portable tanks (less than 100 lbs.) is estimated to be \$700,000 per year (adjusted for amendment 009671).
- According to DOR, amendment 009812 will not change the estimated fiscal impact of this bill as amended.

- The increase to recurring state expenditures for one Tax Audit position, two Taxpayer Verification Services positions, and two Information Technology Resources positions is estimated to be \$270,000 per year.
- The increase of one-time state expenditures related to the hiring of the five new positions is estimated to be \$120,000.
- According to DOR, the decrease to local government revenues resulting from sales tax exemptions for motor vehicles purchased by members of military is estimated to be \$325,000 per year.
- The increase of local government revenues resulting from the addition of Stewart and Humphreys counties to the Tennessee River Resort District Act is estimated to be \$425,000 per year (fiscal note for HB0327/SB0532).

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc